MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2018/2019

BAC4634 – CORPORATE ACCOUNTING II

(All sections / Groups)

7 MARCH 2019
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 7 pages (excluding the cover) with 4 Questions only.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

Part A

Prospects Sdn Bhd is a prosperous private company, dealing in computers and computer spare parts, for a longer period in Kuala Lumpur, whose owners are also the directors. The directors have decided to dispose of their business due to re-locating their family to their home country. They have begun a search for organizations interested in its purchase. They have requested you, as accountant, to assess the price per ordinary share a purchaser might be expected to offer. Relevant information is as follows:

Statement of Financial Position of Prospects Sdn Bhd (most recent)

	RM'000	RM'000
Land & building	7,500	
Plant & equipment	1,450	
Motor vehicle	255	
Patents/Logo	20	
		9,225
Inventory	550	
Receivables	525	
Cash	80	
		1,155
		10,380
Share capital (2,000,000 ordinary shares of RM1)	2,000	
Reserves	5,760	
		7,760
Loan secured on property		2,000
Payables	490	
Taxation	130	
		620
		10,380

The annual dividend has been RM400,000 (gross) for the last 6 years.

The company estimated 5 year future plan forecasts after-tax profit of RM1,200,000 for the next 12 months, with an increase of 10% a year over each of the next 4 years. Discounting factor is 10%. (year 1- 0.909; year 2- 0.826; year 3- 0.751; year 4-0.683; and year 5-0.621)

As part of their preparation to sell the company, the directors of Prospects Sdn Bhd had the fixed assets revalued by an independent expert, with the following results:

	RM'000
Land & building	10,750
Plant & equipment	1,480
Motor vehicle	170
Patents/Logo	50

Other assets and liabilities are valued at carrying value.

Continued...

The profit after tax and interest but before dividends over the previous 5 years have been as follows:

Year	RM'000
1	990
2	800
3	1,055
4	1,190
5 (most recent)	1,200

The dividend yields and P/E ratios of 3 listed companies in the same industry as Prospects Sdn Bhd over the last 3 years have been as follows:

	Computime Bhd		Cybergiant Bhd		SkyCompu Bhd	
	Div yield (%)	P/E	Div yield (%)	P/E	Div yield (%)	P/E
Recent year	15	15.5	16	14	18	18
Previous year	14	16.0	16	15	20	19
3 years ago	13	17.0	16	16	22	20
Average	14	16.16	16	15	20	19

Other companies wishing to take over Prospects Sdn Bhd expects to have a required return of 20%.

Required:

Use the following valuation methods and calculate the range of prices which the new buyer would prefer to settle and justify your conclusion. (write your assumptions and limitations if any).

a) Asset valuation method;
b) P/E method, and
c) Discounted cash flow method.

(20 marks)

Part B

In funded post-employment benefit plan, the employer makes periodic payments or contribution to a separate fund while un-funded post-employment benefit plan no separate funding is involved. Assume that the cost of retirement benefits of Berjaya Bhd for the current year amounts to RM800,000. Also assume that Berjaya Bhd's employees who retired during the year received cash totaling RM350,000.

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Required:

In compliance with the MFRS 119: *Employee Benefits*, show the journal entries required if Berjaya Bhd's retirement benefits plan is:

i) Funded, and
ii) Un-funded.

(5 marks)
(Total 25 marks)

QUESTION 2

Part A

MFRS 136 – *Impairment of Assets* – prescribes that 'an impairment loss shall be recognised for a cash generating unit (the smallest group of cash-generating units to which goodwill or a corporate asset has been allocated) if, and only if, the recoverable amount of the unit (group of units) is less than the carrying amount of the unit (group of units).

Company ABC Bhd conduct impairment tests for the following cash-generating unit every year. The assets of cash-generating unit are as follows:

	RM'000
Freehold land and building	130,000
Plant	20,000
Machinery	30,000
Equipment	20,000
Goodwill	20,000
Total	220,000

The fair value less cost to sell of the unit as a whole is RM125,000,000. Its value in use is estimated at RM150,000,000. The fair value less costs to sell of the freehold land and building is estimated at RM120,000,000.

Required:

a) Explain briefly how the impairment test shall be allocated in the above cash-generating unit.

(6 marks)

b) Asses and allocate the impairment loss to the cash-generating unit assets and show the carrying value of assets in a table after the impairment loss.

(7 marks)

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Part B

On 1 January 2014, ABC Bhd issued the following three different debt instruments, all with a nominal value of RM20 million which is redeemable in three years. The effective interest rate is 10%. ABC Bhd does not account for the instrument at fair value through profit or loss.

a) Instrument A1 has a coupon interest rate of 0% and is redeemable at a premium of 6.62 million.
b) Instrument B1 has a coupon interest rate of 0% and is issued at a discount of RM4.96 million.
c) Instrument C1 has a coupon interest rate of 2% is issued at a discount of RM1 million and redeemable at a premium of RM4 million.

Required:

In compliance with the MFRS 9: *Financial* Instruments, explain how the above stated financial instruments should be dealt with in the financial statements. Show three different tables for instruments A1,B1 and C1.

(12 marks)
(Total 25 marks)

QUESTION 3

PART A

Green Berhad, a parent company, incorporated a foreign subsidiary known as Yellow Ltd on 1 January 2016. The functional currency of Green Berhad is Ringgit Malaysia. The functional currency of Yellow Ltd is Y$. The financial year end for both companies is 31 December annually.
The summarised financial statements of the two companies are as follows:

Statement of Financial Position as at 31 December 2017

	Green Berhad RM'000	Yellow Ltd Y$000
Property, plant and equipment	2,400	5,600
Accumulated depreciation	(1,000)	(800)
	1,400	4,800
Investment in Yellow Ltd	1,500	-
Current assets		
Trade receivables	900	800
Bank	600	400
Trade payables	(400)	(440)
Borrowing	(200)	(440)
	3,800	5,120

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Ordinary shares	1,200	4,000
Retained profit	2,600	1,120
	3,800	5,120

Statement of Profit or Loss for the Year Ended 31 December 2017

	Green Berhad RM'000	Yellow Ltd Y$000
Profit before tax	800	640
Taxation	(400)	(320)
	400	320

Additional information: -

The following exchange rates are relevant:

Date of incorporation of Yellow Ltd	Y$4:RM1
1 January 2017	Y$2:RM1
31 December 2017	Y$3:RM1
Average rate for year 2017& 2016	Y$1.6:RM1

Required:

In compliance with the MFRS 121: *The Effects of Changes in Foreign Exchange Rates* and using the net investment method:

i) Prepare the translated Statement of Financial Position as at 31 December 2017.
(6 marks)

ii) Prepare the translated Statement of Profit or Loss for the year ended 31 December 2017.
(1 mark)

iii) Prepare the reconciliation of the exchange difference for year 2017.
(2 marks)

iv) Compute the goodwill on consolidation.
(2 marks)

v) Prepare the consolidated Statement of Financial Position as at 31 December 2017.
(8 marks)

vi) Prepare the consolidated Statement of Profit or Loss for the year ended 31 December 2017.
(1 mark)

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PART B

Purple Berhad, a Malaysian listed company, diversifies the business from education into medical and food businesses. In addition, the business operation has expanded to other countries namely Singapore and Thailand. Due to the diversification and expansion, the accountant of Purple Berhad is requesting you, as the auditor of Purple Berhad, to advise on the accounting treatment for the operating segments.

In accordance to the MFRS 8: *Operating Segments*, prepare a short note explaining how to apply the recognition and measurement principles, in presenting the operating and reportable segments.

(5 marks)

(Total 25 marks)

QUESTION 4

PART A

Lemon Berhad, a Malaysian listed company, engages in the business of manufacturing textiles. The financial year end is 31 October annually. As at 31 October 2017, the deferred tax liability is RM4 million, with the tax rate is 24%.

As a consultant, you are requested by Lemon Berhad to provide detail computation of deferred tax for the year ended 31 October 2018. Lemon Berhad furnishes the following financial transactions, that occurred within 1 November 2017 until 31 October 2018:

i) Lemon Berhad appointed a professional valuer to revalue the machine. The revaluation exercise for the machine resulted to the revaluation surplus of RM10 million. As at 31 October 2018, the carrying amount of machinery was RM84 million and tax base value was RM50 million.

ii) Lemon Berhad has recognised rental receivable of RM4 million. However, none has been received as at 31 October 2018.

iii) Lemon Berhad has made provision for employee benefit of RM2 million, in compliance with the MFRS 119: *Employee Benefits*. For the tax base, the employee benefit expenditure will be tax deductible when Lemon Berhad incurred it.

iv) Lemon Berhad had trade receivables amounting to RM7 million after providing for doubtful debts of RM500,000.

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v) Lemon Berhad had an investment that was measured at fair value of RM16 million. The cost of the investment was RM14 million.

vi) The tax rate for the year of assessment 2018 has changed from 24% to 22%.

vii) The tax payable for the year was calculated at RM3.3 million. The tax payable as at 31 October 2017 is RM1 million.

Required:

In compliance with the MFRS 112: *Income Taxes*:

a) Measure the temporary differences for each of the items above as at 31 October 2018.

(10 marks)

b) Measure the deferred tax as at 31 October 2018.

(5 marks)

c) Determine the tax expense in the Statement of Profit or Loss for the year ended 31 October 2018.

(2 marks)

d) Determine the balance of deferred tax and tax payable in the Statement of Financial Position as at 31 October 2018.

(2 marks)

PART B

Blue Berhad, a Malaysian listed company, engages in the business of banking services. As part of the staff retention scheme, Blue Berhad is granting share options to the staff. At the beginning of year 1, Blue Berhad granted 25,000 options at the tax rate of 25%. The staff could exercise their right from the beginning of year 5. Fair value of the option is RM9. The intrinsic value per option for year 1 and year 2 is RM5 and RM10 respectively.
In accordance with the MFRS 2: *Share-based Payments*, evaluate the deferred tax implications for year 1 and year 2.

(6 marks)

(Total 25 marks)

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